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DRAFT REPORT OF THE TRADE AND DEVELOPMENT BOARD ON ITS FORTY-THIRD SESSION

Rapporteur: Mrs. Violeta Fonseca de Sanabria (Venezuela)

AGENDA ITEM 3 (continued)

Speakers: Organization of African Unity
Sri Lanka
Mexico
Thailand
Republic of Korea
Russian Federation
Cuba
Canada
Australia
International Monetary Fund
ICFTU
Third World Network

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

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Chapter II

INTERDEPENDENCE AND GLOBAL ECONOMIC ISSUES FROM A TRADE AND DEVELOPMENT PERSPECTIVE: RETHINKING DEVELOPMENT STRATEGIES; SOME LESSONS FROM EAST ASIAN DEVELOPMENT EXPERIENCE

(Agenda item 3)

(continued)

76. The representative of the **Organization of African Unity** noted from this year's *Trade and Development Report* that annual GDP growth in Africa was now at a rate of about 3 per cent, an outcome accompanied by an improvement in commodity prices but also by a continued decline in both official and private capital inflows. He was alarmed to find, however, that African countries which performed well would need to sustain their current rate of growth for more than a decade in order to restore real per capita incomes to their levels of 20 years ago. This was a highly unsatisfactory situation which called for a new generation of structural adjustment programmes to address the strategic issues of African development including infrastructure, institutional capacity-building and related supply-side matters, diversification, regional cooperation and market development.

77. There were two main lessons from the East Asian experience for generating and accelerating growth in Africa. One concerned the diversification and processing of natural resource-based products in line with the experience of the resource-rich "second-tier" newly industrializing economies of East Asia, and the other concerned the dynamism of a market-driven approach to regional cooperation, where trade and investment served as vehicles for transferring new goods and technology among countries.

78. He considered the Treaty Establishing the African Economic Community, which had come into force in 1994, to be an appropriate framework in which member countries could adopt new orientations for their economic policies and new modes of cooperation. There was also a need for further attention to be paid to Africa's external financial constraints. The consensus on the need for concerted action here, which was reflected in the recent announcement of a new debt reduction initiative by the World Bank and IMF should be extended to include action to stimulate investment flows. In view of the acute external financial constraints and low levels of domestic savings in most African countries, there was a pressing need to improve their capacity to attract foreign investment, in the process drawing investors' attention to the considerable opportunities

existing in all major economic sectors, namely natural resources, agro-industry, other manufacturing, tourism, other services, and infrastructure. He urged member States to participate fully in the Working Party on a Multilateral Investment Treaty that was expected to be established at the WTO Ministerial Meeting in Singapore with a view to securing consensus on the special investment needs of Africa.

79. The representative of **Sri Lanka** said that interdependence was no longer an article of faith for developing countries only, for the fundamental changes taking place in terms of inter-penetration of national economies, the emergence of multi-polar economic centres of power and the new technological revolution would further strengthen interdependence. However, too little attention was being paid to its implications for the deep-seated problem of poverty. The international community had been preoccupied with the macroeconomic aspects of economic growth on the assumption that this would trickle down to the poor. But this trickle-down process had not worked satisfactorily. An underlying cause of the development crisis was the contraction in external financing and the deterioration of the external environment. Inappropriate policies of debtor countries might have contributed to the debt crisis but the resulting drop in investment and capacity had created imbalances in the trading system and put the entire financial system under great stress. A comprehensive approach to this problem was required.

80. East Asian experience had shown that modernization of traditional technologies combined with economic reforms to raise the productivity of the informal sector could encourage the passage to a free market economy. But in linking rural areas to the modern sector it was necessary to go beyond the conventional approach. It was the pursuit of sound economic policies that had enabled the countries of East Asia to register investment rates in the range of 30 to 35 per cent of GDP and double-digit annual rates of economic growth. High growth, in turn, meant high levels of employment, a sharp reduction in poverty, and substantial budgetary resources to invest in education and health, and in needed infrastructure. The private sector was the principal engine of growth, State intervention being limited to areas where the market failed to function.

81. While the East Asian economies pursued policies geared to economic self-reliance, they had also benefited from expanding markets. With the stagflation of the 1970s, these markets had lost their buoyancy but they still offered significant opportunities for emergent second-tier newly industrializing economies in East Asia. Subsequently, the international economic and trading environment had made it more difficult for small countries like Sri Lanka to emulate the export-oriented growth experience of East Asia. Consequently,

regional economic cooperation was vital if Sri Lanka was to achieve rapid economic growth.

82. The representative of **Mexico** said that, in the wake of UNCTAD IX, it was clear that a new global strategy for development was now required, taking into account the growing trend towards imbalances and inequalities in both the national and the international arenas. Globalization and liberalization did not constitute *per se* a comprehensive recipe for development problems, and they should be further analysed in order to pave the way for coordinated policy actions in fields such as trade, technology, and poverty.

83. The lessons to be drawn from the East Asian experience deserved further reflection, in view of the fact that nowadays many of the exogenous and endogenous factors which had made possible these countries' rapid development were no longer present. The Uruguay Round Agreements now forbade many interventionist policies applied successfully in East Asia. Moreover, saving and investment rates in most developing countries were far from the record levels achieved in that region, probably owing to deeply embedded cultural characteristics and to countries' specific peculiarities. Full allowance should be made for such differences in drawing lessons from the East Asian experience for policies elsewhere. These remarks were in no way intended to denigrate the *Trade and Development Report*, whose analysis of successful development experiences in East Asia was probably useful for less advanced countries in the same continent. But it would be of great interest for Latin American and Caribbean countries if a new study were undertaken by UNCTAD, focusing on successful development experiences in their region. Finally, it should be stressed that, if development in the South were to be export-led, market access in the North had to improve, especially in the area of phasing out non-tariff barriers.

84. The representative of **Thailand** expressed concern at the increasing disparity within the international community. Although the Uruguay Round Agreements had marked a turning point for the international trading system, not all countries were benefiting from the process of globalization and liberalization and there was a risk of further marginalization of some countries. At the same time, he was encouraged by the improved growth performance of some developing countries and their increased dynamism in world trade, but the problem now was how to sustain this performance and to include all developing countries in it. Drawing on the lessons from the experience of East Asian countries was helpful in this regard. The *Trade and Development Report* rightly observed that government intervention and market forces were complementing each other in these countries. But, as in all success stories, there had been mistakes from which

one could learn as well. In particular, developing countries needed to look at the qualitative aspect of development, rather than confining their attention to quantitative economic growth. Policies to alleviate poverty, environmental protection, and measures to ensure an equitable income distribution and the development of human resources were required to sustain economic progress. In this regard, he drew attention to the priorities in his country's Eighth National Plan. However, domestic action and policies were not sufficient to sustain his country's economic performance, and regional economic cooperation was imperative to enable it to compete in an increasingly competitive world. The ASEAN free trade area was scheduled to be implemented by the year 2003. This would unleash the potential of its member countries and stimulate the comparative advantage of South-East Asia. Moreover, the ASEAN countries were trying to encourage other countries in the region to participate in the region's dynamic development through infrastructural linkages and subregional cooperation activities.

85. The representative of the **Republic of Korea** identified the following crucial components of the East Asian development experience: political and economic stability, which could only be fully ensured by sound domestic governance; an export orientation with export promotion; capital accumulation financed both domestically and from abroad; the upgrading and importation of new technology and the development of overseas marketing skills; balanced enterprise development; and human resource development, at the level of both skilled workers and advanced education. Trade and investment constituted the cornerstone of all efforts towards sustainable development. He agreed with the analysis in the *Trade and Development Report* that in most East Asian countries the State provided a necessary complement to, and sometimes corrective influence on, the market. In the Republic of Korea, the impetus for development had been generated internally, but the attraction of FDI as a remarkably effective instrument for providing the basic necessities of economic development should also be recognized. FDI provided a package which included the transfer of technology, the promotion of production and managerial skills, manpower training and trade promotion. However, as stated in the *Report*, domestic technological capabilities should be complemented by a selective approach to FDI.

86. The scope for pursuing export-oriented policies had been broadened by recent changes in the world economic environment. Globalization and liberalization, technological advances, mobility of factors of production, and economies of scale all provided potential sources of growth from such policies, while the conclusion of the Uruguay Round had increased security of access for exports. But globalization also threatened to increase the marginalization of some developing countries. Experience sharing among developing countries should be encouraged in order to promote inclusion of all countries in these benefits,

and the Republic of Korea would continue to assist developing countries to that end.

87. The representative of the **Russian Federation**, expressing his support for UNCTAD's more active involvement in the issues of globalization and liberalization, attributed special importance to activities designed to overcome the threat of marginalization of the LDCs and to facilitate deeper integration of transition economies into the world economy. Liberalization and globalization were causing international trade to become an increasingly important factor in economic growth, the full potential of which could be realized only through improved access to markets, if necessary by overcoming protectionist barriers. The openness of the Russian economy enabled all trading partners to participate on an equal footing. However, the residual discriminatory elements in the trade policies of major trading nations vis-à-vis economies in transition were still a matter of concern and seemed inadmissible in a world characterized by liberalization and globalization. Recalling that General Assembly resolution 50/795 had underlined the importance of the full integration of transition economies into the world economy, he argued that this process should be accompanied by a widening of UNCTAD's mandate in the field of technical assistance to these countries, which would cover, *inter alia*, their accession to WTO.

88. The Russian Federation was in the process of creating a competitive market economy. Its policies of macroeconomic stabilization and the creation of conditions for growth were starting to bear fruit. Thus the monthly rate of inflation had decreased to 1.9 per cent, while the decline of industrial production had bottomed out. There were also signs of growth in real incomes, and further strengthening of the legal system was taking place. The annual growth of foreign trade had reached 10 per cent against a backdrop of the abolition of export tariffs and licensing. Import tariffs were the country's only remaining instrument for regulating trade. An important indicator for the economy's openness - the share of imports in retail trade - had surpassed 50 per cent. The Russian Federation was currently pursuing freer trading relations with other CIS countries, and wished to develop its trade with ASEAN.

89. He agreed with the balanced analysis in the *Trade and Development Report* of the potential role of the State in redressing the failures and excesses of market mechanisms. The East Asian development paradigm was compatible with market forces but not driven by them. The growth of the countries in the region also pointed to the role which could be played by regional cooperation. Countries like the Russian Federation had much to learn from East Asian examples of government policies for fostering industrialization, attracting FDI,

transferring technology, and encouraging the development of an entrepreneurial class. At the same time, he would have liked to see more discussion in the *Report* of the relation of the East Asian experience to globalization, liberalization and interdependence, and of the applicability of the East Asian model in the aftermath of the Uruguay Round, as a counter-balance to the detailed analysis of the past successes in this region. In its further work on this issue, UNCTAD should take account of the practical needs of its constituents.

90. The representative of **Cuba** cautioned against any under-estimation of the specific circumstances and factors faced by policy-makers in different countries. Many of the findings in the Trade and Development Report left little room for optimism. World economic growth was slow, with no comprehensive structural solution in sight, and the external debt of developing countries continued to mount. ODA and credit flows to the developing world were much lower than 15 years ago, although population had doubled in the meantime. The economic miracles forecast in the 1980s by neo-liberal economists were nowhere to be seen, and the concentration of wealth and the North-South divide remained extreme.

91. The Cuban economy, in spite of daunting obstacles, was experiencing a recovery as a result of the implementation of structural reforms. After the serious crisis caused by the collapse of Cuba's major trade partners, which had led to a fall in GDP of 34 per cent between 1989 and 1993, the economy had started to grow again in 1994. GDP growth had been 2.5 per cent in 1995, and 9.6 per cent in the first half of 1996. The budget deficit was expected to be contained at 2.5 per cent of GDP, and the Cuban peso had recently strengthened. Most agricultural enterprises had been transformed into cooperatives. A million tourists were expected to visit the country in 1996, and foreign exchange receipts from tourism would amount to almost 40 per cent of the total of such receipts. These results had been achieved in the absence of mass unemployment or cuts to basic social services.

92. The promotion of foreign investment constituted a central tenet of the Cuban reform strategy. Eighteen reciprocal international investment agreements had been reached so far, and another 25 were being studied or negotiated. New measures providing incentives for the development of free economic zones and industrial parks were being implemented. Twelve foreign banks and 660 foreign businesses were now active in Cuba. However, Cuba was aware that its situation was still difficult. The United States of America had recently enacted the Helms-Burton law in order to stem the growing flow of foreign investment into Cuba. This was a clear example of unilateralism and an attempt to impose extraterritorial jurisdiction. The international community had severely condemned this law, which constituted a challenge to the multilateral trade

system and was incompatible with several Articles of the WTO Agreement.

93. representative of **Canada** expressed considerable interest in the discussion of the East Asian development experience in the *Trade and Development Report*, but thought that the particular circumstances of countries would require variation in the policy formulas appropriate to their development. Nevertheless there were common elements in the experiences of recently successful countries, such as a stable macroeconomic environment, a proper legal framework, good governance, and emphasis on trade. She felt that the *Report* still placed excessive emphasis on issues that were not central to those areas where UNCTAD could have a significant development impact. While this might be due to the fact that UNCTAD IX had been held fairly recently so that some of the analyses in the Report had predated the Conference, she was looking forward to seeing the more focused approach of the agenda agreed at UNCTAD IX reflected in next year's *Trade and Development Report*.

94. The representative of **Australia** complimented the secretariat on its analysis of factors contributing to dynamic growth in East Asia and noted that the *Trade and Development Report 1996* pointed to the important role in the growth of economies in the region played by the rapid expansion of exports of labour-intensive manufactures to major developed countries. She felt that replication of such a strategy would be difficult for Pacific island and other developing countries lacking a developed manufacturing base, and the promotion of other commodities for export, selected on the basis of comparative advantage, might be more an appropriate to their development strategy. Mutually reinforcing regional trade and investment linkages, a subject to which the *Report* perhaps gave insufficient attention, featured prominently in the successful growth of East Asian countries, but it had to be asked whether these factors too could be replicated elsewhere. It was necessary to consider also non-economic factors that had an important bearing upon the success or failure of development strategies. Prevailing social conditions, for example, were also of critical importance, as was the degree to which basic needs were met by the government in the areas of health, education, water supply, sanitation and housing. Other studies, such as the World Bank's *East Asian Miracle*, had emphasized the considerable public investment made by East Asian countries in health and education, which was critical in building a strong base of human resources.

95. The representative of the **International Monetary Fund** said there had recently been substantial progress regarding global stability and growth. World economic and financial conditions were generally satisfactory, and the outlook was favourable. Many industrial countries had come close to achieving effective price stability. In developing countries there had been a continuation of solid

growth, albeit unevenly distributed across regions. Africa's performance was encouraging, with growth in 1996 and 1997 at the highest levels in two decades. In the transition economies, activity was projected to stabilize in 1996 after five years of decline. The volume of world trade continued to expand, while trade and financial liberalization were progressing. There had also been a rebound of private capital flows to developing countries, and the exchange rates of the major currencies had been brought more closely in line with economic fundamentals.

96. After commending the discussion in the *Trade and Development Report* of the external debt situation of developing countries, he gave an updated review of the initiative under way in IMF and the World Bank regarding the situation of heavily indebted poor countries. The Interim and the Development Committees had fully endorsed the proposals of the Managing Director of IMF and the President of the World Bank, and had urged the two institutions to implement them quickly. The proposals set out the role to be played by the different actors - the debtor countries, the bilateral creditors of the Paris Club as well as non-Paris-Club countries, commercial creditors, and multilateral creditors including the Fund and the Bank.

97. Referring to the discussion in the *Report* of factors affecting international capital flows and of policies in this area, he said that, while exchange controls in such forms as restrictions on credit operations between residents and non-residents and on non-residents' access to domestic financial markets could have an impact on the overall volume of capital movements as well as on the allocation of capital between portfolio and direct investment, UNCTAD seemed none the less to over-estimate the usefulness of such measures in containing capital inflows. It was not obvious that such controls had succeeded in containing liquidity growth. In any case, appropriate policy adjustments should play a central role in supporting the temporary use of controls. While portfolio investments by non-residents had risen rapidly in many countries, these might prove highly volatile. It would be of interest to identify the role of macroeconomic factors in explaining these flows, and in determining the likelihood of their reversal. Capital inflows might also increase the burden on the domestic banking system, resulting in greater fragility and thus giving rise to the need for strengthening the regulatory framework for banks. Issues regarding policies towards the capital account were of increasing interest to several international bodies. The IMF would continue its analysis of capital flows and examine possible changes in the Fund's Articles.

98. The representative of the **International Confederation of Free Trade Unions** (ICFTU) said that in the discussion of the successful development experience of

East Asian countries so far the framework of economic policy had received much attention but the institutional and socio-political factors affecting the responsiveness of economic agents to government policies and incentives had been neglected. The effectiveness of economic policies depended also on the interaction between government and THE civil society and variation in this effectiveness among countries reflected differences in their stages of development and social structures. This was why structural adjustment programmes in Africa and elsewhere had fallen short of expectations. The programmes had been based on the incorrect assumption that developed markets already existed in these low-income countries.

99. In some East Asian countries democracy had come late, and there had been repression of basic human and trade union rights. While such authoritarianism on the political front should not be replicated in other developing countries, the East Asian experience did show the positive role which governments could play in development by providing not only a good macroeconomic environment but also policies giving appropriate importance to agriculture and basic social services, as well as to the establishment of effective and secure financial systems. In these countries, education and training had contributed to enhancing the productivity of investment, facilitating the transfer of advanced foreign technologies, and the building-up of an efficient administration. Stability was a major precondition for long-term investment of any kind, but such stability should be achieved through democracy, which provided more reliable safeguards of accountability, responsibility, and concern for people's welfare. A more equal income distribution could also contribute to faster growth. If FDI was to generate lasting benefits, it was necessary to link it as closely as possible to the domestic economy. In the design of appropriate development strategies it was necessary to take account not only of country-specific conditions but also of the fact that the international economic environment today was different from that of 30 years ago.

100. The representative of the **Third World Network** largely agreed with the overall thrust and conclusions of the analysis of the East Asian development experience and its applicability to other countries in the *Trade and Development Report*, but doubted whether developing countries possessed adequate policy autonomy in the post-Uruguay Round era to take advantage of the benefits of globalization for effective development. In this regard, assessments of the outcome of the Uruguay Round at a recent seminar organized by the Third World Network had indicated that the WTO Agreement was unbalanced and asymmetric in that the benefits for developing countries of the new trade order were still uncertain, while the costs were immediate. Globalization was seen by the public as generating increased wealth for a limited number of people in a small number

of countries and marginalization for the vast majority in both developed and developing countries. This was creating very large - and politically and socially unacceptable - inequities within societies and among countries. Globalization could offer benefits to countries which integrated into the world economy, but only if the asymmetry of the rules of the game in the areas of trade, money and finance was rectified. UNCTAD was best positioned to provide an objective analysis of the impact of globalization, given its focus on economic development.